

**STATE OF MONTANA
MILES COMMUNITY COLLEGE
MILES CITY, MONTANA**

**BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION**

FISCAL YEARS ENDED JUNE 30, 2003 AND 2004

**CONDUCTED UNDER CONTRACT BY
C H M S, P.C.
CONTACT: TARA LEE HILL, CPA
PHONE #: (406) 433-2092**

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
JUNE 30, 2003 AND 2004**

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**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
JUNE 30, 2003 AND 2004**

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

June 2005

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Miles Community College for the two fiscal years ended June 30, 2004.

The audit was conducted by CHMS, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long horizontal flourish extending to the right.

Scott A. Seacat
Legislative Auditor

04C-06

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**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA**

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Montana Board of Regents of Higher Education

| | |
|------------------------|---------------------------------------|
| John Mercer | Chair |
| Mike Foster | Vice-Chair |
| Richard Roehm | Regent |
| Mark J. Semmens | Regent |
| Lila Taylor | Regent |
| Lynn Morrison-Hamilton | Regent |
| Kala French | Student Regent |
| Judy Martz | Governor* |
| Linda McCulloch | Superintendent of Public Instruction* |

Office of the Commissioner of Higher Education

| | |
|---------------|---|
| Sheila Sterns | Commissioner of Higher Education |
| Rodger Barber | Deputy Commission for Academic And Student Affairs |
| Rod Sundsted | Associate Commissioner for Fiscal Affairs |
| Pam Joehler | Director of Budget and Accounting |
| Cathy Swift | Chief Legal Counsel |

Miles Community College Board of Trustees

| | |
|---------------|------------|
| Tom Clarke | Chair |
| Sharon Wilcox | Vice-Chair |
| Tom Albers | Secretary |
| Jan Wagner | Trustee |
| Jim Lucas | Trustee |
| Scott Tally | Trustee |

Administration

| | |
|-------------------|---------------------------------|
| Dr. Darrel Hammon | President |
| Ronald Dorn | Dean of Administrative Services |
| Tad Torgerson | Controller |

* Ex officio member of the Board of Regents of Higher Education

**MILES COMMUNITY COLLEGE
YEARS ENDED JUNE 30, 2003 AND 2004**

RECOMMENDATIONS

FINDING #04-01 – SEGREGATION OF DUTIES

Due to the small size of the entity, there is an absence of segregation of duties appropriate for a strong system of internal control. The College has implemented compensating controls to the extent practical, and we are not recommending further action at this time. However, we believe the Trustees should be aware that the condition results in a greater risk of errors occurring and not being detected within a timely manner than would be the case if duties were appropriately segregated.

Recommendation

No further action at this time.

FINDING #04-02 – NON-BUDGETED FUNDS EXPENDITURE LIMITATIONS

The College has a number of individual non-budgeted funds with deficit cash balances. According to Montana Code Annotated §20-9-210, the expenditures for a non-budgeted fund are limited to that fund's cash balance. The College requested a County Attorney's opinion regarding the definition of non-budgeted funds for community colleges. The County Attorney has not provided the College with a firm definition of non-budgeted funds for a community college.

Recommendation

The College should request an Attorney General's opinion on the definition of non-budgeted funds for community colleges. For those funds defined as non-budgeted funds, expenditures should be limited to the amount of cash available in that fund.

FINDING #04-03 – PURCHASE OF PROPERTY

The College purchased furniture and a telephone system during the audit period, each with a total contract cost exceeding \$25,000. The College did not follow formal bid procedures for that purchase. Montana Code Annotated §20-15-104 requires that whenever the proposed contract costs are more than \$25,000, the board of trustees shall solicit formal bids and advertise once each week for at least 2 weeks in a newspaper published in each county wherein the area of the district lies, calling for bids to perform such work or furnish such supplies.

Recommendation

The College should follow formal bid procedures that conform to the requirements of Montana Code Annotated §20-15-104.

FINDING #04-04 – STUDENT FINANCIAL AID EXIT CONFERENCES

The College is required to conduct and document exit counseling for the Federal Family Educational Loan Program, pursuant to 34 CFR 682.04 and 685.303. In a sample of 40 files, 3 files did not contain the required documentation of exit conferences or documentation of an attempt to contact the student.

Recommendation

The College should develop a system to identify students that withdraw or leave school during the year who need exit conferences completed. As an additional safeguard to ensure the documentation is in the student's file, the College should develop a checklist to track when the required documentation for exit conferences has been placed in the student's file.

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2001 and 2002 is as follows:

| <u>Finding</u> | <u>Status</u> |
|---|---------------------------------|
| Finding #02-1 – Segregation of Duties | N/A – See finding #04-1 |
| <u>Explanation on non-implementation</u> – The College has added an additional position within the business office and separated some of the incompatible duties. The College continues to implement compensating controls to the extent practical. | |
| Finding #02-2 – Non-Budgeted Funds Expenditures | Not Implemented – Finding #04-2 |
| <u>Explanation on non-implementation</u> – The College has not received any further information regarding the definition of non-budgeted funds for the community colleges. No Attorney General's opinion has been received regarding this issue. | |
| Finding #02-3 – Purchase of Property | Not Implemented – Finding #04-3 |
| <u>Explanation on non-implementation</u> – The College developed internal policies conforming to the requirements of Montana Code Annotated §20-15-104. In two specific instances the College did not conform to its own policy requirements. | |



Miles Community College Management's Discussion and Analysis Fiscal Years Ended June 30, 2003 and 2004

Overview

Miles Community College's Management Discussion and Analysis (MD&A) presents an overview of its financial condition and assists the reader in focusing on significant financial issues for the years ended June 30, 2003 and 2004. The discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes.

Financial and Other College Highlights

- **Retirement Levy** – The College in the past has chosen not to levy the retirement tax to keep the mill levy for Custer County tax payers as low as possible. Due to increased costs and reductions in state funding it became necessary for the College to institute the retirement levy in FY 2004.
- **Dorm Construction** – The most significant event that occurred for the campus during FY 2003 and FY 2004 was the construction of the new 132 bed residence hall. The total cost of the project was \$2.4 million and was financed by a variety of funding sources including a \$250,000 gift from the Miles Community College Endowment Corporation. The new residence hall significantly impacted our ability to recruit out-of-district students and increase revenues in other college auxiliary funds.
- **Distance Education programs** – With the declining population in eastern Montana, the College has implemented alternative methods such as interactive television and on-line classes to deliver its educational services. As a consequence of this increased focus on distance education, the Nursing Program has enhanced its ability to reach out to nursing students at three off campus sites, Billings, Glendive, and Sidney.
- **Enrollment (FTE)** – The College has experienced an increase in our student enrollment by about seven percent, largely due to a revision of our recruiting efforts that include a regional recruiting effort, Nursing Program expansion, distance education expansion, and a more focused use of our available scholarship money.

Using the Financial Statements

The College's financial statements consist of the following three statements:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-For Public Colleges and Universities*. They differ significantly, in form and the accounting principles utilized, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the college, the results of operations, and cash flows of the college as a whole.

Significant changes to the financial statements are as follows:

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Capital assets are now depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.
- Assets and Liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Assets are presented in order of their relative liquidity.
- Revenues and Expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. "Non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that State Appropriation and District Levy revenues must be reported as "non-operating".
- Tuition and Fees are reported net of any Tuition Waivers that were applied directly to a students account.

The three new financial statements are designed to help the reader of the financial statements to determine whether the College's overall financial condition has improved or deteriorated as a result of the current year's financial activities. These financial statements present similar information to that disclosed in private sector financial statements.

Statement of Net Assets

The Statement of Net Assets, which reports all assets and liabilities of the College, presents the financial position of the College at the end of the fiscal year. The net assets are simply the difference between total assets and total liabilities. The change in net assets during the fiscal year is an indicator of the change in the overall financial condition of the College during the year.

A summary of the Statement of Net Assets follows:

| ASSETS | 6/30/2004 | 6/30/2003 |
|---|--------------------|--------------------|
| Total Current Assets | \$866,156 | \$575,066 |
| Total Noncurrent Assets | 5,278,964 | 3,615,973 |
| TOTAL ASSETS | \$6,145,120 | \$4,191,039 |
| LIABILITIES | | |
| Total Current Liabilities | \$432,013 | \$470,843 |
| Total Noncurrent Liabilities | 2,994,444 | 1,370,679 |
| TOTAL LIABILITIES | \$3,426,457 | \$1,841,522 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | \$2,293,347 | \$2,308,475 |
| Restricted, Expendable | 189,057 | 201,049 |
| Unrestricted | 236,259 | (160,007) |
| TOTAL NET ASSETS | \$2,718,663 | \$2,349,517 |

Current assets include the College's cash; taxes, grants, student loan, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The \$291,090 increase from FY 2003 to FY 2004 was caused primarily by an increase in cash. An increase in student accounts receivable contributed to the increase in current assets as well.

Noncurrent assets primarily represent the College's Capital Assets less Accumulated Depreciation. The most significant item affecting the College's noncurrent assets was the \$2.2 million residence hall construction. The new residence hall was placed into service during the fall of 2003 and increases our on-campus housing capacity to 180 students.

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by almost \$39,000 from FY 2003 to FY 2004, in spite of the increased debt as a result of the dorm construction, due largely to a state appropriation reversion that occurred in FY 2003 that did not occur in FY 2004.

Noncurrent liabilities primarily represent debt principal payments due after a one-year period. It also includes the amount of compensated absence liability. The most

significant item affecting the College's noncurrent liabilities was the debt related to the residence hall construction. A variety of funding sources were used to finance the construction including a consortium of local banks, the Montana Board of Investments, and the United State Department of Agriculture Rural Reserve program. The total amount borrowed for the project was \$2,170,000. The Miles Community College Endowment Corporation gifted \$250,000 to help with the cost of construction.

Invested in capital assets, net of related debt represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred.

Restricted expendable net assets represents funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.

Unrestricted net assets are funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management.

Total net assets increased by \$369,146 from FY 2003 to FY 2004, which indicates the overall financial position of the College has improved over that time period.

Statement of Revenue, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year on a full accrual basis, which means revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid. Results of operations are classified as either operating or nonoperating.

A summary of the Statement of Revenues, Expenses and Changes in Net Assets follows:

| | <u>6/30/2004</u> | <u>6/30/2003</u> |
|--|----------------------|----------------------|
| Operating Revenues | \$3,961,272 | \$3,625,991 |
| Operating Expenses | 6,370,462 | 5,790,348 |
| OPERATING LOSS | <u>\$(2,409,190)</u> | <u>\$(2,164,357)</u> |
| Nonoperating Revenues (Expenses) | <u>\$2,742,286</u> | <u>\$2,140,472</u> |
| INCREASE (DECREASE) IN NET ASSETS | <u>\$333,096</u> | <u>\$(23,885)</u> |
| Net Assets, Beginning of Year | \$2,349,517 | \$6,922,603 |
| Prior Period Adjustments | 36,050 | (4,549,201) |
| Net Assets, Beginning of Year, as Restated | <u>2,385,567</u> | <u>2,373,402</u> |
| Net Assets, End of Year | <u>\$2,718,663</u> | <u>\$2,349,517</u> |

Operating revenues represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues.

Nonoperating revenue (expenses) consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses.

Increase in net assets represent the difference between total revenues and total expenses.

Net assets were restated as follows: During fiscal year ended June 30, 2003 prior period adjustments were recorded to implement the new provisions required under Governmental Accounting Standards Board (GASB) statement No. 35. These adjustments were to remove capital assets in the amount of \$1,984,298 and to record prior years accumulated depreciation in the amount of \$2,564,903. During fiscal year ended June 30, 2004 prior period adjustments were recorded to remove prior year outstanding checks, to record termination pay reserve, and to adjust payables in the amount of \$36,050.

The following provides a comparative analysis of revenues and expenses for the two fiscal years:

ANALYSIS OF ALL SOURCES OF REVENUE

| SOURCE OF REVENUE | FISCAL YEAR 2004 | | FISCAL YEAR 2003 | | INCREASE (DECREASE FY'04 VS FY'03 |
|--|--------------------|---------------|--------------------|---------------|--|
| | AMOUNT | PERCENT | AMOUNT | PERCENT | |
| | | | | T | |
| Operating Revenues | | | | | |
| Tuition and Fees (Net) | \$1,018,551 | 15.03% | \$ 723,404 | 12.44% | \$ 295,147 |
| Federal Grants and Contracts | 1,429,736 | 21.09% | 1,299,167 | 22.34% | 130,569 |
| State Grants and Contracts | 242,402 | 3.58% | 295,256 | 5.08% | (52,854) |
| Private and Local Grants and Contracts | 207,001 | 3.05% | 489,205 | 8.41% | (282,204) |
| Indirect Cost Recoveries | 20,140 | 0.30% | 17,634 | 0.30% | 2,506 |
| Auxiliary Enterprise Activities | 892,500 | 13.17% | 573,547 | 9.86% | 318,953 |
| Other Operating Revenues | 150,942 | 2.23% | 227,778 | 3.92% | (76,836) |
| Total Operating Revenue | <u>\$3,961,272</u> | <u>58.44%</u> | <u>\$3,625,991</u> | <u>62.36%</u> | <u>\$ 335,281</u> |
| Nonoperating Revenues | | | | | |
| Interest Income | \$ 9,927 | 0.15% | \$ 10,418 | 0.18% | \$ (491) |
| State Appropriations | 1,475,483 | 21.77% | 1,253,528 | 21.56% | 221,955 |
| District Levies | 1,331,818 | 19.65% | 924,766 | 15.90% | 407,052 |
| Total Nonoperating Revenues | <u>\$2,817,228</u> | <u>41.56%</u> | <u>\$2,188,712</u> | <u>37.64%</u> | <u>\$ 628,516</u> |
| Total Revenue | <u>\$6,778,500</u> | <u>100%</u> | <u>\$5,814,703</u> | <u>100%</u> | <u>\$ 963,797</u> |

ANALYSIS OF CATEGORY OF EXPENSE

| CATEGORY OF EXPENSE | FISCAL YEAR 2004 | | FISCAL YEAR 2003 | | INCREASE (DECREASE FY'04 VS FY'03 |
|------------------------------------|--------------------|---------------|---------------------|---------------|--|
| | AMOUNT | PERCENT | AMOUNT | PERCENT | |
| Operating Expenses | | | | | |
| Salaries | \$2,588,163 | 40.16% | \$ 2,567,676 | 43.98% | \$ 20,487 |
| Benefits | 751,280 | 11.66% | 662,076 | 11.34% | 89,204 |
| Travel | 184,553 | 2.86% | 149,631 | 2.56% | 34,922 |
| Supplies | 356,604 | 5.53% | 294,478 | 5.04% | 62,126 |
| Contracted Service | 381,299 | 5.92% | 257,511 | 4.41% | 123,788 |
| Rent and Lease | 35,104 | 0.54% | 39,780 | 0.68% | (4,676) |
| Repairs and Maintenance | 15,748 | 0.24% | 10,085 | 0.17% | 5,663 |
| Advertising | 42,059 | 0.65% | 40,585 | 0.70% | 1,474 |
| Meetings and Dues | 17,668 | 0.27% | 21,087 | 0.36% | (3,419) |
| Utilities | 154,290 | 2.39% | 119,597 | 2.05% | 34,693 |
| Student Support | 58,165 | 0.90% | 52,007 | 0.89% | 6,158 |
| Communications | 66,773 | 1.04% | 65,242 | 1.12% | 1,531 |
| Software | 12,322 | 0.19% | 26,863 | 0.46% | (14,541) |
| Unassigned | 50,246 | 0.78% | 41,474 | 0.71% | 8,772 |
| Scholarships and Grants | 921,134 | 14.29% | 784,679 | 13.44% | 136,455 |
| Noncapitalized Equipment | 90,925 | 1.41% | 161,063 | 2.76% | (70,138) |
| Insurance | 56,808 | 0.88% | 37,889 | 0.65% | 18,919 |
| Indirect Costs | 10,335 | 0.16% | 12,402 | 0.21% | (2,067) |
| Food for Resale | 101,754 | 1.58% | 79,088 | 1.35% | 22,666 |
| Items for Resale | 154,166 | 2.39% | 134,208 | 2.30% | 19,958 |
| Other Operating Expenses | 100,466 | 1.56% | 68,488 | 1.17% | 31,978 |
| Depreciation Expense | 220,600 | 3.42% | 164,439 | 2.82% | 56,161 |
| Total Operating Expenses | \$6,370,462 | 98.84% | \$ 5,790,348 | 99.17% | \$ 580,114 |
| Nonoperating Expenses | | | | | |
| Interest Payments | \$ 58,916 | 0.91% | \$ 48,240 | 0.83% | \$ 10,676 |
| Other Nonoperating Expenses | 16,026 | 0.25% | - | 0.00% | 16,026 |
| Total Nonoperating Expenses | \$ 74,942 | 1.16% | \$ 48,240 | 0.83% | \$ 26,702 |
| Total Expenses | \$6,445,404 | 100% | \$ 5,838,588 | 100% | \$ 606,816 |

Comments about specific revenue and expense items are:

- **Tuition & Fees Revenues** – Increases in tuition and fee rates combined with an increase in enrollment contributed to the 40% increase from FY 2003 to FY 2004.
- **Private & Local Grants and Contracts** – During FY 2003 the College received a \$250,000 gift from the Miles Community College Endowment Corporation to offset costs associated with the construction of the new residence hall.
- **Auxiliary Enterprise Activities** – The 55% increase from FY 2003 to FY 2004 is largely the result of increases in Food Services and Student Housing. This is due to the larger number of students living on campus with the implementation of the new residence hall.
- **State Appropriation** – Even though our per FTE state funding decreased from \$2,680 per FTE in FY 2003 to \$2,663 in FY 2004 the College's total state

appropriation increased by nearly 18% for those same years. This is due to increased enrollment and an additional one-time funding in FY 2004 of \$100,912 from Jobs and Growth Tax Relief Funds.

- **District Levies** – Our District Levies increased by 44% from FY 2003 to FY 2004. This is the result of the implementation of a retirement tax levy. By statute the college should have been levying taxes to cover the cost of retirement benefits for its employees. The Board of Trustees took the necessary action to levy the tax beginning in FY 2004.
- **Expenses (general comment):** Overall expenses increased by \$700,361 from FY 2003 to FY 2004. However, overall revenues increased by \$963,797 which has allowed the college to cure the deficit balances in some of our Non-General Funds bringing us closer to being in compliance with state regulations regarding non-budgeted funds.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the College's sources and uses of cash during the fiscal year. This statement aids in assessing the College's ability to meet obligations and commitments as they become due, their ability to generate future cash flows and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method," which focuses on those transactions that either provided or used cash during the fiscal year.

A summary of the Statement of Cash Flows follows:

| CASH FLOW CATEGORY | 6/30/2004 | 6/30/2003 |
|--|-------------------------|-------------------------|
| Cash Provided (Used) by: | | |
| Operating Activities | \$(2,300,377) | \$(2,000,232) |
| Nonoperating Activities | 2,807,493 | 2,152,425 |
| Capital Financing Activities | (264,390) | (385,048) |
| Investing Activities | 9,927 | 10,418 |
| Net Increase (Decrease) in Cash | <u>\$252,653</u> | <u>\$(222,437)</u> |
| Cash and Cash Equivalents, Beginning of Year | \$226,228 | \$448,665 |
| Prior Period Adjustments | 36,050 | 0 |
| Beginning Cash and Cash Equivalent as Restated | <u>262,278</u> | <u>448,665</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$514,931</u></u> | <u><u>\$226,228</u></u> |

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – The College will continue to experience challenges due to the declining population in our service area, and we will continue to explore opportunities to grow enrollment.
- **State Funding** – State funding has not kept pace with increased educational costs, and we expect this trend to continue into the future. We will continue to look for alternate sources of funding such as state and federal grants, business partnerships, and partnerships with other educational institutions. Although the College anticipates little or no change in the amount of state funding in the near future, the state is reviewing the funding formula for community colleges and our hope is this will result in increased state funding in the future.
- **Faculty and Staff** – The ability to attract and keep high quality faculty and staff because of our salary schedule is a concern of the College.
- **Volleyball** – The College is adding a women's volleyball team beginning in the fall of 2005. This will offer us an additional increase in student enrollment and higher utilization of the College's residence hall facilities.
- **Student Records Management System** – The College is in the process of implementing a web-based student management records system. This is cutting edge technology that will allow us to provide exceptional customer service to our students in a timely matter. It will also provide management with accurate and timely student information on which decisions can be made.



CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067
104 Second Avenue S.W.
Sidney, Montana 59270
406-433-2092
1-800-676-2467
FAX: 406-433-2095

INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee
Of the Montana State Legislature

We have audited the accompanying basic financial statements of Miles Community College, Miles City, Montana, as of and for the years ended June 30, 2003 and 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain the audited financial statements supporting the financial activities of Miles Community College Endowment Corporation, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

As described in Note A, the College has implemented a new financial reporting model as required by provisions of GASB Statement No. 35 Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the audited financial statement of Miles Community College Endowment Corporation, or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the financial position of Miles Community College, Miles City, Montana, as of June 30, 2003 and 2004, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The managements' discussion and analysis on pages 5 - 12 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Functional Classification of Operating Expenses on pages 31-32, the Schedule of Student Financial Aid Modified Statement of Cash Receipts and Disbursements on pages 33 - 34, the Schedule of Expenditures - Student Financial Assistance Programs on page 35, and the Schedule of Enrollment Statistics on page 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of Federal Awards on pages 37 - 38 are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CHMS, PC

CHMS, P.C.
Certified Public Accountants

May 27, 2005

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003**

| ASSETS | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| Current Assets | | |
| Cash and Cash Equivalents - Note C | \$ 491,021 | \$ 211,882 |
| Taxes Receivable - Note A | 81,624 | 82,375 |
| Grants Receivable - Note A | 41,172 | 45,561 |
| Student Loan Receivable | 52,756 | 58,866 |
| Accounts Receivable - Note A | 117,817 | 109,138 |
| Prepaid Expense | 27,384 | 20,823 |
| Inventory - Note A | 54,382 | 46,421 |
| Total Current Assets | <u>866,156</u> | <u>575,066</u> |
| Noncurrent Assets | | |
| Restricted Cash and Cash Equivalents - Note C | 23,910 | 14,346 |
| Capital Assets - Note D | 8,204,996 | 6,330,969 |
| Less: Accumulated Depreciation | (2,949,942) | (2,729,342) |
| Total Noncurrent Assets | <u>5,278,964</u> | <u>3,615,973</u> |
| Total Assets | <u>6,145,120</u> | <u>4,191,039</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | 98,137 | 19,580 |
| Accrued Payroll | 54,642 | 78,019 |
| Deferred Revenue - Tuition and Fees | 60,502 | 57,461 |
| Tuition Deposits | 11,005 | 6,515 |
| Dormitory Deposits | 11,250 | 9,800 |
| Due to Other Governments | - | 147,655 |
| Assets Held in Trust for Student Organizations | 33,006 | 18,387 |
| Current Portion of Compensated Absences Payable (Note F) | 7,375 | 26,885 |
| Current Portion of Long-Term Obligations - Note E | 156,096 | 106,541 |
| Total Current Liabilities | <u>432,013</u> | <u>470,843</u> |
| Noncurrent Liabilities | | |
| Noncurrent Compensated Absences Payable - Note F | 188,833 | 184,068 |
| Noncurrent Portion of Long-Term Obligations - Note E | 2,805,611 | 1,186,611 |
| Total Noncurrent Liabilities | <u>2,994,444</u> | <u>1,370,679</u> |
| Total Liabilities | <u>3,426,457</u> | <u>1,841,522</u> |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 2,293,347 | 2,308,475 |
| Restricted for: | | |
| Expendable: | | |
| Student Loans | 64,082 | 80,108 |
| Debt Service | 23,910 | 14,346 |
| Scholarships, Research, Instruction, and Other | 101,065 | 106,595 |
| Unrestricted | 236,259 | (160,007) |
| Total Net Assets | <u>\$ 2,718,663</u> | <u>\$ 2,349,517</u> |

See notes to the financial statements.

MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

| REVENUES | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| Operating Revenues | | |
| Tuition and Fees (net of scholarship allowance of \$322,446) | \$ 1,018,551 | \$ 723,404 |
| Federal Grants and Contracts | 1,429,736 | 1,299,167 |
| State Grants and Contracts | 242,402 | 295,256 |
| Private and Local Grants and Contracts | 207,001 | 489,205 |
| Indirect Cost Recoveries | 20,140 | 17,634 |
| Auxiliary Activities: | | |
| Bookstore (net of book buybacks and returns of \$50,108) | 216,603 | 157,882 |
| Food Services | 249,335 | 162,039 |
| Centra | 138,114 | 122,787 |
| Big Sky Dorm | 288,448 | 130,839 |
| Other Operating Revenues | 150,942 | 227,778 |
| Total Operating Revenues | <u>3,961,272</u> | <u>3,625,991</u> |
| EXPENSES | | |
| Operating Expenses | | |
| Salaries | 2,588,163 | 2,567,676 |
| Benefits | 751,280 | 662,076 |
| Travel | 184,553 | 149,631 |
| Supplies | 356,604 | 294,478 |
| Contracted Services | 381,299 | 257,511 |
| Rent and Lease | 35,104 | 39,780 |
| Repairs and Maintenance | 15,748 | 10,085 |
| Advertising | 42,059 | 40,585 |
| Meetings and Dues | 17,668 | 21,087 |
| Utilities | 154,290 | 119,597 |
| Student Support | 58,165 | 52,007 |
| Communications | 66,773 | 65,242 |
| Software | 12,322 | 26,863 |
| Unassigned | 50,246 | 41,474 |
| Scholarships and Grants | 921,134 | 784,679 |
| Noncapitalized Equipment | 90,925 | 161,063 |
| Insurance | 56,808 | 37,889 |
| Indirect Costs | 10,335 | 12,402 |
| Food for Resale | 101,754 | 79,088 |
| Items for Resale | 154,166 | 134,208 |
| Other Operating Expenses | 100,466 | 68,488 |
| Depreciation Expense | 220,600 | 164,439 |
| Total Operating Expenses | <u>6,370,462</u> | <u>5,790,348</u> |
| Operating Loss | <u>(2,409,190)</u> | <u>(2,164,357)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest Income | 9,927 | 10,418 |
| State Appropriations | 1,475,483 | 1,253,528 |
| District Levies | 1,331,818 | 924,766 |
| Interest Payments | (58,918) | (48,240) |
| Other Nonoperating expenses | (16,024) | - |
| Total Nonoperating Revenues | <u>2,742,286</u> | <u>2,140,472</u> |
| INCREASE (DECREASE) IN NET ASSETS | <u>333,096</u> | <u>(23,885)</u> |
| Net Assets, Beginning of Year | 2,349,517 | 6,922,603 |
| Prior Period Adjustments | | |
| Cash adjustments - Note M | 36,050 | - |
| GASB 35 Asset Adjustment - Note M | - | (1,984,298) |
| GASB 35 Adjustment to Record Accumulated Depreciation - Note M | - | (2,564,903) |
| Beginning Net Assets, as Restated | <u>2,385,567</u> | <u>2,373,402</u> |
| Net Assets, End of Year | <u>\$ 2,718,663</u> | <u>\$ 2,349,517</u> |

See notes to the financial statements.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

| | 2004 | 2003 |
|--|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and Fees | \$ 1,016,557 | \$ 667,818 |
| Grants and Contracts | 1,883,528 | 2,089,272 |
| Payments to Employees | (2,626,285) | (2,546,139) |
| Payments for Benefits | (751,280) | (662,076) |
| Payments to Suppliers | (1,649,649) | (1,334,759) |
| Payments for Utilities | (154,290) | (119,597) |
| Payments for Scholarships and Fellowships | (921,134) | (784,679) |
| Collection of Loans to Students | 6,110 | 9,716 |
| Auxiliary Enterprise Charges | | |
| Resident Halls | 289,898 | 124,989 |
| Bookstore | 216,603 | 157,882 |
| Food Services | 249,335 | 162,039 |
| Centra | 138,114 | 122,787 |
| Other Receipts (Payments) | 2,116 | 112,515 |
| NET CASH USED BY OPERATING ACTIVITIES | (2,300,377) | (2,000,232) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State Appropriations | 1,475,483 | 1,253,528 |
| District Levies | 1,332,569 | 880,510 |
| Other Nonoperating expenses | (15,178) | - |
| Transactions of Student Organizations | 14,619 | 18,387 |
| NET CASH PROVIDED BY NONOPERATING ACTIVITIES | 2,807,493 | 2,152,425 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Proceeds from Capital Debt | 3,618,470 | 441,115 |
| Purchases of Capital Assets | (1,874,027) | (709,952) |
| Principal Paid on Capital Debt | (1,949,915) | (67,971) |
| Interest Paid on Capital Debt | (58,918) | (48,240) |
| NET CASH USED BY CAPITAL FINANCING ACTIVITIES | (264,390) | (385,048) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Income | 9,927 | 10,418 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 9,927 | 10,418 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 252,653 | (222,437) |
| Cash and Cash Equivalents, Beginning of Year | 226,228 | 448,665 |
| Prior Period Adjustments | 36,050 | - |
| Beginning Cash and Cash Equivalents, as Restated | 262,278 | 448,665 |
| Cash and Cash Equivalents, End of Year | \$ 514,931 | \$ 226,228 |
| RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating Loss | \$ (2,409,190) | \$ (2,164,357) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation Expense | 220,600 | 164,439 |
| Changes in Net Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable | 974 | (65,213) |
| (Increase) Decrease in Prepaid Expense | (6,561) | (9,756) |
| (Increase) Decrease in Inventory | (7,961) | (320) |
| Increase (Decrease) in Accounts Payable | (83,494) | 61,817 |
| Increase (Decrease) in Compensated Absences Payable | (14,745) | 13,158 |
| Net Cash Used By Operating Activities | \$ (2,300,377) | \$ (2,000,232) |

See notes to the financial statements.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Miles Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

Reporting Entity

Miles Community College is a community college district which has received full accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Custer County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

Financial Statements

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June 1999, GASB unanimously approved Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" amends Statement No. 34 to address the accounting and financial reporting issues related to public colleges and universities. Certain significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the College's overall financial position and results of operations.

A change in the fund-group financial statements to an entity-wide perspective.

Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. All significant inter-entity transactions have been eliminated upon consolidation.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

The College considers all investments to be highly liquid, and, therefore, cash equivalents.

Investments

Investments are carried at cost, which approximates market value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note C on Investment Risk Categories.)

Taxes Receivable

The College records taxes receivable for property taxes that have been assessed but have not yet been collected. These taxes receivable are recorded as deferred revenue in the year assessed, and recorded as revenue in the year collected.

Accounts Receivable

Accounts receivable consists primarily of student tuition and fees.

Grants Receivable

Grants receivable are for expenditures made on grants for which reimbursement has not been received.

Inventories

Inventories consist mainly of bookstore supplies and are valued at cost on the first-in, first-out method. The costs of inventory are recorded as expenditures when purchased.

Use of Estimates

The preparation of these general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Assets

Cash that is externally restricted as to its use is classified as a noncurrent asset in the accompanying statement of net assets.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.). Capital assets are defined as assets with an individual initial cost of more than \$2,500 and a useful life in excess of one year.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated under the straight-line method over the following estimated useful lives:

| | <u>Years</u> | | <u>Years</u> |
|-----------------------|--------------|---------------|--------------|
| Buildings | 50 | Equipment | 5 - 20 |
| Building Improvements | 50 | Library Books | 5 |

Donated Services

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

Compensated Absences

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

Net Assets

The College's net assets are categorized as follows:

Invested in capital assets, net of related debt - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted, expendable - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted, nonexpendable - net assets subject to externally imposed stipulations that the College maintain those assets permanently.

Unrestricted - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

Revenues

The College has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenue - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.

Nonoperating Revenue - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.

Use of Restricted Revenues

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Change in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE B - LOCAL APPROPRIATIONS

All property taxes are collected by the Treasurer of Custer County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

The tax levies for the College for the years ended June 30, 2003 and 2004 were as follows:

| | Number of Mills | |
|-----------------------|-------------------------|-------------------------|
| | Year ended 6/30/2003 | Year ended 6/30/2004 |
| Mandatory County Levy | 51.15 | 54.98 |
| Adult Education Levy | 1.21 | 1.23 |
| Retirement Fund Levy | - | 24.28 |
| Total | <u>52.36</u> | <u>80.49</u> |

The value of one mill was \$14,032 for 2003 and \$13,932 for 2004.

NOTE C - CASH AND INVESTMENTS

Cash and Investments, except those identified below, are held by the Custer County Treasurer. The Board of Trustees may invest money of the College in savings deposits, time deposits or repurchase agreements with financial institutions that are located in Montana and are insured by the FDIC, FSLIC, or NCUA. The Board of Trustees may also invest the College's money in obligations of the United States Government, or in the State Short-Term Investment Pool (S.T.I.P.).

Cash and Investments held by the Treasurer of Custer County at June 30, 2003:

| | Carrying Value | Fair Value | Unrealized Gain(Loss) |
|---|-------------------|-------------------|--------------------------|
| Invested in the County Investment Pool | \$ <u>198,777</u> | \$ <u>198,220</u> | \$ <u>(557)</u> |

Cash and Investments held by the Treasurer of Custer County at June 30, 2004:

| | Carrying Value | Fair Value | Unrealized Gain(Loss) |
|---|-------------------|-------------------|--------------------------|
| Invested in the County Investment Pool | \$ <u>495,254</u> | \$ <u>495,239</u> | \$ <u>(15)</u> |

The Custer County Commissioners require 50% security on money held by the Custer County Treasurer. The governmental entities' money is insured by the Federal Deposit Insurance Corporation (FDIC) for each "public unit" based on how the account is titled at the financial institution. The College's money invested in the county investment pool is titled in the Custer County Treasurer's name, and therefore is not separately insured by FDIC insurance. The county government is considered to have \$100,000 FDIC insurance for demand deposits and \$100,000 FDIC insurance for time and savings deposits in each bank within the state.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE C - CASH AND INVESTMENTS (CONTINUED)

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2004.

Cash and Investments not held by the county treasurer have been recorded at cost and are as follows at June 30, 2003:

| | Book Balance | Fair Value and Bank Balance |
|----------------------------|------------------|--------------------------------|
| Cash on Hand | \$ 8,055 | \$ 8,055 |
| Student Loan Fund Deposits | 19,396 | 19,396 |
| Total | <u>\$ 27,451</u> | <u>\$ 27,451</u> |

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2003:

| | |
|-----------------------------|------------------|
| Category 1 - Insured (FDIC) | \$ <u>19,396</u> |
|-----------------------------|------------------|

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2003:

| | |
|---|-------------------|
| Uncategorized investments - amount invested in an external investment pool (Custer County Investment Pool). | \$ <u>198,220</u> |
|---|-------------------|

Cash and Investments not held by the county treasurer have been recorded at cost and are as follows at June 30, 2004:

| | Book Balance | Fair Value and Bank Balance |
|----------------------------|------------------|--------------------------------|
| Cash on Hand | \$ 10,341 | \$ 10,341 |
| Student Loan Fund Deposits | 9,336 | 9,336 |
| Total | <u>\$ 19,677</u> | <u>\$ 19,677</u> |

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2004:

| | |
|-----------------------------|-----------------|
| Category 1 - Insured (FDIC) | \$ <u>9,336</u> |
|-----------------------------|-----------------|

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE C - CASH AND INVESTMENTS (CONTINUED)

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2004:

Uncategorized investments - amount invested in an external investment pool (Custer County Investment Pool). \$ 495,239

Restricted cash in the plant funds is for the required loan reserve for the Rural Development loan. This restricted cash is held by the Custer County Treasurer, and is not required by the loan document to be in a separate account. Restricted cash as of June 30, 2003, and June 30, 2004, totaled \$14,346 and \$23,910, respectively.

NOTE D - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2003, were as follows:

| | Balance 6/30/2002 | Additions/ Adjustments | Retirements/ Reclassifications | Balance 6/30/2003 |
|------------------------------------|----------------------|---------------------------|-----------------------------------|----------------------|
| Land | \$ 206,412 | \$ - | \$ - | \$ 206,412 |
| Construction in Progress | - | 614,671 | - | 614,671 |
| Buildings | 4,770,773 | - | 180,000 | 4,590,773 |
| Equipment | 2,212,182 | 81,886 | 1,804,298 | 489,770 |
| Library Inventory | 415,948 | 13,395 | - | 429,343 |
| Total | <u>7,605,315</u> | <u>709,952</u> | <u>1,984,298</u> | <u>6,330,969</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 1,932,914 | 91,815 | - | 2,024,729 |
| Equipment | 248,348 | 56,440 | - | 304,788 |
| Library Inventory | 383,641 | 16,184 | - | 399,825 |
| Total Accumulated Depreciation | <u>2,564,903</u> | <u>164,439</u> | <u>-</u> | <u>2,729,342</u> |
| Capital Assets, Net | <u>\$ 5,040,412</u> | <u>\$ 545,513</u> | <u>\$ 1,984,298</u> | <u>\$ 3,601,627</u> |

Capital asset balances and activity for the year ended June 30, 2004, were as follows:

| | Balance 6/30/2003 | Additions/ Adjustments | Retirements/ Reclassifications | Balance 6/30/2004 |
|------------------------------------|----------------------|---------------------------|-----------------------------------|----------------------|
| Land | \$ 206,412 | \$ - | \$ - | \$ 206,412 |
| Construction in Progress | 614,671 | - | 614,671 | - |
| Buildings | 4,590,773 | 2,195,733 | - | 6,786,506 |
| Equipment | 489,770 | 275,741 | - | 765,511 |
| Library inventory | 429,343 | 17,224 | - | 446,567 |
| Total | <u>6,330,969</u> | <u>2,488,698</u> | <u>614,671</u> | <u>8,204,996</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 2,024,729 | 135,730 | - | 2,160,459 |
| Equipment | 304,788 | 68,890 | - | 373,678 |
| Library Inventory | 399,825 | 15,980 | - | 415,805 |
| Total Accumulated Depreciation | <u>2,729,342</u> | <u>220,600</u> | <u>-</u> | <u>2,949,942</u> |
| Capital Assets, Net | <u>\$ 3,601,627</u> | <u>\$ 2,268,098</u> | <u>\$ 614,671</u> | <u>\$ 5,255,054</u> |

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE E - NOTES PAYABLE

Notes payable consists of several different mortgages payable, as described below. Changes in notes payable during 2003 were as follows:

| | Balance 6/30/2002 | Debt Issued | Principal Payment | Balance 6/30/2003 |
|--|----------------------|-------------------|----------------------|----------------------|
| Miles Community College | | | | |
| Endowment | \$ 144,894 | \$ - | \$ 34,327 | \$ 110,567 |
| Stockman Bank | 353,998 | - | 12,199 | 341,799 |
| USDA Rural Development | 340,316 | - | 14,445 | 325,871 |
| Department of Housing and Urban Development | 80,800 | - | 7,000 | 73,800 |
| Miles Community College | | | | |
| Endowment | - | 44,000 | - | 44,000 |
| Montana Board of Investments | - | 300,000 | - | 300,000 |
| Stockman Bank Construction | - | 97,115 | - | 97,115 |
| | \$ <u>920,008</u> | \$ <u>441,115</u> | \$ <u>67,971</u> | \$ <u>1,293,152</u> |

Changes in mortgages payable during 2004 were as follows:

| | Balance 6/30/2003 | Debt Issued | Principal Payment | Balance 6/30/2004 |
|--|----------------------|---------------------|----------------------|----------------------|
| Miles Community College | | | | |
| Endowment | \$ 110,567 | \$ - | \$ 38,113 | \$ 72,454 |
| Stockman Bank | 341,799 | - | 13,195 | 328,604 |
| USDA Rural Development | 325,871 | - | 16,054 | 309,817 |
| Department of Housing and Urban Development | 73,800 | - | 7,400 | 66,400 |
| Miles Community College | | | | |
| Endowment | 44,000 | - | 14,667 | 29,333 |
| First Interstate Bank | - | 370,000 | 727 | 369,273 |
| Montana Board of Investments | 300,000 | - | 13,118 | 286,882 |
| Stockman Bank Construction | 97,115 | 1,748,470 | 1,845,585 | - |
| USDA Rural Development | - | 1,500,000 | 1,056 | 1,498,944 |
| | \$ <u>1,293,152</u> | \$ <u>3,618,470</u> | \$ <u>1,949,915</u> | \$ <u>2,961,707</u> |

The note payable to the Department of Housing and Urban Development was in the original amount of \$205,541 and will be paid off on July 1, 2012. This note is payable in semiannual installments on January 1st and July 1st of each year. Interest is payable at 3% per annum. There is no security for this loan.

The note payable to Miles Community College Endowment was in the original amount of \$458,299. There is no interest payable on this note. This note is being repaid from 1/3 of the student building fees collected, until such time as the deficit in the Building Repayment Fund has been eliminated. Once the deficit has been eliminated, the entire amount of the student building fees will be paid to Miles Community College Endowment. There is no security for this loan.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE E - NOTES PAYABLE (CONTINUED)

The note payable to Stockman Bank of Montana was in the original amount of \$400,000. This note is payable in monthly installments of \$3,387 on the 23rd day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2004 was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

The first note payable to the USDA Rural Development was in the original amount of \$400,000. This note is payable in semi-annual installments of \$15,936 due on March 23rd and September 23rd of each year. This note bears interest at 5.0% per annum. This note is secured by two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

The note payable to Miles Community College Endowment was in the original amount of \$44,000. There is no interest payable on this note. This note is being repaid from the Bus Operations fund on a quarterly basis. Final payment on this note is due April 1, 2006. There is no security for this loan.

The mortgage payable to First Interstate Bank was in the original amount of \$370,000. This mortgage is payable in monthly installments of \$2,736 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 6.39%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2024. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

The note payable to the Montana Board of Investments was in the original amount of \$300,000 and will be paid off on August 15, 2013. This note is payable in semiannual installments on August 15th and February 15 of each year. Interest is payable at 2.85% per annum. This note is secured by a deed of trust on the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College.

A construction loan was obtained from Stockman Bank for the construction of the new dormitory. The interest rate for the construction loan was 7.5%. Advances on the note began on June 16, 2003, and continued until June 6, 2004. The construction loan was paid off with the proceeds of the note payable from USDA Rural Development, as well as the proceeds of the note payable from First Interstate Bank. Total interest paid on the loan during the year ended June 30, 2004 was \$86,593. No interest was paid on the loan during the year ended June 30, 2003. \$86,593 of interest was capitalized as part of the dormitory.

The second note payable to the USDA Rural Development was in the original amount of \$1,500,000. This note is payable in monthly installments of \$6,630 on the 18th day of each month. This note bears interest at 4.375% per annum. This note is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on May 18, 2044.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE E - NOTES PAYABLE (CONTINUED)

Notes payable maturities are as follows:

| Year | Principal | Interest |
|-----------|---------------------|---------------------|
| 2005 | \$ 156,096 | 147,721 |
| 2006 | 163,032 | 146,447 |
| 2007 | 121,471 | 141,850 |
| 2008 | 128,769 | 136,997 |
| 2009 | 137,913 | 131,045 |
| 2010-2014 | 574,119 | 500,947 |
| 2015-2019 | 338,885 | 353,792 |
| 2020-2024 | 288,323 | 270,863 |
| 2025-2029 | 186,775 | 211,025 |
| 2030-2034 | 232,352 | 165,448 |
| 2035-2039 | 289,052 | 108,748 |
| 2040-2044 | 344,920 | 38,246 |
| Total | \$ <u>2,961,707</u> | \$ <u>2,353,129</u> |

NOTE F - COMPENSATED ABSENCES PAYABLE

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

June 30, 2003:

| | Balance 6/30/2002 | Increase (Decrease) | Balance 6/30/2003 |
|-------------------------|----------------------|------------------------|----------------------|
| Vacation and Sick Leave | \$ <u>197,795</u> | \$ <u>13,158</u> | \$ <u>210,953</u> |

June 30, 2004:

| | Balance 6/30/2003 | Increase (Decrease) | Balance 6/30/2004 |
|-------------------------|----------------------|------------------------|----------------------|
| Vacation and Sick Leave | \$ <u>210,953</u> | \$ <u>(14,745)</u> | \$ <u>196,208</u> |

NOTE G - RETIREMENT PLANS

The College participates in two state-wide, multiple employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE G - RETIREMENT PLANS (CONTINUED)

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows:

June 30, 2004 and June 30, 2003:

| | <u>Employer</u> | <u>Employee</u> | <u>Total</u> |
|------|-----------------|-----------------|--------------|
| TRS | 7.47% | 7.15% | 14.62% |
| PERS | 6.80% | 6.90% | 13.70% |

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------|-------------------|-------------------|-------------------|
| TRS | \$ 238,452 | \$ 242,758 | \$ 188,706 |
| PERS | <u>146,659</u> | <u>122,944</u> | <u>120,001</u> |
| Total | \$ <u>385,110</u> | \$ <u>365,703</u> | \$ <u>308,707</u> |

The State of Montana contributes .10% of the employees' wages covered by PERS, and .11% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

NOTE H - RISK MANAGEMENT

The College faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability i.e. errors and omissions, d) environmental damage, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE I - RELATED PARTY TRANSACTIONS

Miles Community College Endowment Corporation is a private nonprofit organization with relations to Miles Community College. As discussed in Note L, this entity is considered a component unit of Miles Community College.

During the year ended June 30, 2003, Miles Community College Endowment Corporation loaned \$44,000 to Miles Community College for the purchase of a bus. Details of this note payable are described in Note E.

During the years ended June 30, 2004 and 2003, respectively, the Miles Community College Endowment Corporation provided to the College \$37,101 and \$313,685 in scholarship and other gift support.

NOTE J - LEASES

The College has entered into an operating lease with GMAC for the President's vehicle. Payments on the lease total \$455 per month, for 36 months. The buyout option at the end of the lease is \$11,191. The total lease paid during the years ended June 30, 2003 and 2004 was \$5,456 and \$5,456, respectively.

Future minimum lease payments are as follows:

| Year | | Lease Amount |
|------|----|-----------------|
| 2005 | \$ | <u>909</u> |

NOTE K - DEFICIT NET ASSETS

Two auxiliary funds have deficit net assets balances as of June 30, 2003, and one auxiliary fund has a deficit net asset balance as of June 30, 2004. The deficit net asset balances are as follows for the years ended June 30:

| | 2003 | 2004 |
|-----------|-----------|---------|
| Cafeteria | \$ 40,456 | - |
| Centra | 156,760 | 107,823 |

NOTE L - COMPONENT UNIT

Miles Community College Endowment Corporation, is a nonprofit, tax-exempt organization operating exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the College. Although the College may not control the timing or amount of receipts from this entity, the majority of the revenues or incomes thereon that the entity holds and invests are restricted by donors to the activities of the College.

The College implemented GASB 39 - Determining Whether Certain Organizations Are Component Units during the fiscal year ended June 30, 2004. As noted in the independent auditor's report, we were unable to obtain audited financial statements supporting the financial activities of Miles Community College Endowment Corporation, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2004**

NOTE M - PRIOR PERIOD ADJUSTMENTS

In order to comply with the provisions of GASB Statement No. 34 and No. 35, there were significant prior period adjustments to the capital assets in the fiscal year ended June 30, 2003. These adjustments were to remove capital assets and record beginning accumulated depreciation, as stated in the financial statements.

Prior period adjustments to cash at June 30, 2004, were as follows:

| | |
|--------------------------------------|------------------|
| Remove prior year outstanding checks | \$ 32,717 |
| Record Termination Pay Reserve | 3,256 |
| Adjustment to Payables | <u>77</u> |
| Total Cash Prior Period Adjustment | \$ <u>36,050</u> |

NOTE N - CONTINGENT LIABILITIES

The College is a defendant in a legal action arising after the date of the Statement of Net Assets, involving a claim of state law violation at a Board of Trustee's meeting in which an employment contract was not renewed. While the outcome cannot be determined at this time, legal counsel is of the opinion that the liability, if any, from these actions will not have a material effect on the College's financial position, results of operations, or cash flows.

A potential claim has been asserted against the College by the NEA/NFT labor organization which represents the newly certified faculty union. The potential claim involves an assertion that the College committed an unfair labor practice when it failed to renew an employment contract in fiscal year 2005. The claim, if formally lodged, would entail an administrative proceeding before the Montana Board of Personnel Appeals. Legal counsel has indicated that it is too premature to assess the potential liability or determine whether the claim, if asserted, would have any impact on the financial position of the College.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the College expects such amount, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2003**

| | Instruction | Public Service | Academic Support | Student Services | Institutional Support | Operation and Maintenance of Plant | Auxiliary | Depreciation | Totals |
|-------------------------|---------------------|------------------|-------------------|---------------------|-----------------------|------------------------------------|-------------------|-------------------|---------------------|
| Salaries | \$ 1,053,807 | \$ 21,490 | \$ 519,021 | \$ 331,497 | \$ 340,096 | \$ 121,340 | \$ 180,425 | \$ - | \$ 2,567,676 |
| Benefits | 255,369 | 5,771 | 146,567 | 91,438 | 70,720 | 37,547 | 54,664 | - | 662,076 |
| Travel | 3,427 | 4,003 | 32,314 | 95,423 | 14,369 | - | 95 | - | 149,631 |
| Supplies | 14,213 | 9,541 | 55,559 | 95,129 | 8,070 | 92,126 | 19,840 | - | 294,478 |
| Contracted Services | 4,937 | 10,930 | 88,084 | 82,624 | 10,024 | 38,128 | 22,784 | - | 257,511 |
| Rent and Lease | 100 | 215 | 3,800 | 18,847 | 6,108 | 457 | 10,253 | - | 39,780 |
| Repairs and Maintenance | 357 | - | - | 1,124 | - | 3,764 | 4,840 | - | 10,085 |
| Advertising | - | 739 | 2,578 | 36,690 | - | - | 578 | - | 40,585 |
| Meetings and Dues | 2,310 | - | 1,000 | 6,169 | 11,608 | - | - | - | 21,087 |
| Utilities | - | - | 2,620 | 8,774 | - | 67,710 | 40,493 | - | 119,597 |
| Student Support | 44,386 | - | 2,114 | 3,942 | - | 572 | 993 | - | 52,007 |
| Communications | - | 855 | 26,764 | 12,004 | 22,491 | - | 3,128 | - | 65,242 |
| Software | - | - | 18,859 | 8,004 | - | - | - | - | 26,863 |
| Unassigned | 6 | 249 | 4,667 | 19,591 | 16,364 | - | 597 | - | 41,474 |
| Scholarships and Grants | 42,452 | - | - | 742,227 | - | - | - | - | 784,679 |
| Equipment | 5,141 | 1,290 | 40,507 | 94,779 | 2,559 | 2,636 | 14,151 | - | 161,063 |
| Insurance | - | - | - | 5,275 | - | 32,364 | 250 | - | 37,889 |
| Indirect Costs | - | - | 12,402 | - | - | - | - | - | 12,402 |
| Food for Resale | - | - | - | - | - | - | 79,088 | - | 79,088 |
| Items for Resale | - | - | - | - | - | - | 134,208 | - | 134,208 |
| Other | 3,582 | - | 9,680 | 36,286 | 17,070 | 4,334 | (2,464) | - | 68,488 |
| Depreciation Expense | - | - | - | - | - | - | - | 164,439 | 164,439 |
| | <u>\$ 1,430,087</u> | <u>\$ 55,083</u> | <u>\$ 966,536</u> | <u>\$ 1,689,823</u> | <u>\$ 519,479</u> | <u>\$ 400,978</u> | <u>\$ 563,923</u> | <u>\$ 164,439</u> | <u>\$ 5,790,348</u> |

MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

| | Instruction | Public Service | Academic Support | Student Services | Institutional Support | Operation and Maintenance of Plant | Auxiliary | Depreciation | Totals |
|-------------------------|--------------|----------------|------------------|------------------|-----------------------|------------------------------------|------------|--------------|--------------|
| Salaries | \$ 987,202 | \$ 36,120 | \$ 525,321 | \$ 413,915 | \$ 348,975 | \$ 98,327 | \$ 178,303 | \$ - | \$ 2,588,163 |
| Benefits | 276,403 | 9,638 | 155,005 | 119,297 | 101,113 | 34,770 | 55,054 | - | 751,280 |
| Travel | 8,705 | 1,793 | 47,167 | 106,483 | 20,405 | - | - | - | 184,553 |
| Supplies | 19,383 | 4,069 | 123,797 | 153,850 | 15,920 | 22,071 | 17,514 | - | 356,604 |
| Contracted Services | 8,643 | 13,241 | 105,620 | 85,955 | 15,358 | 134,011 | 18,471 | - | 381,299 |
| Rent and Lease | 159 | 375 | 4,625 | 13,251 | 7,136 | 666 | 8,892 | - | 35,104 |
| Repairs and Maintenance | 41 | - | - | 3,547 | - | 8,944 | 3,216 | - | 15,748 |
| Advertising | - | 493 | 3,972 | 36,630 | - | - | 964 | - | 42,059 |
| Meetings and Dues | 2,410 | - | - | 5,954 | 9,304 | - | - | - | 17,668 |
| Utilities | - | - | 3,270 | 9,605 | - | 81,690 | 59,725 | - | 154,290 |
| Student Support | 49,476 | - | 3,893 | 2,665 | - | 616 | 1,515 | - | 58,165 |
| Communications | - | 1,097 | 22,914 | 12,855 | 27,742 | - | 2,165 | - | 66,773 |
| Software | - | - | 7,681 | 4,641 | - | - | - | - | 12,322 |
| Unassigned | - | 380 | 4,945 | 19,189 | 24,436 | 319 | 977 | - | 50,246 |
| Scholarships and Grants | 44,060 | - | - | 877,074 | - | - | - | - | 921,134 |
| Equipment | - | - | - | - | - | 90,925 | - | - | 90,925 |
| Insurance | 2,730 | - | - | 7,423 | - | 46,405 | 250 | - | 56,808 |
| Indirect Costs | - | - | 10,335 | - | - | - | - | - | 10,335 |
| Food for Resale | - | - | - | - | - | - | 101,754 | - | 101,754 |
| Items for Resale | - | - | - | - | - | - | 154,166 | - | 154,166 |
| Other | 4,709 | - | 11,093 | 40,680 | 43,583 | 2,981 | (2,580) | - | 100,466 |
| Depreciation Expense | - | - | - | - | - | - | 220,600 | - | 220,600 |
| Totals | \$ 1,403,921 | \$ 67,206 | \$ 1,029,638 | \$ 1,913,014 | \$ 613,972 | \$ 521,725 | \$ 600,386 | \$ 220,600 | \$ 6,370,462 |

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2003**

**STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS**

| | <u>PELL</u> | <u>PERKINS</u> | <u>CWS</u> | <u>SEOG</u> |
|----------------------------------|--------------------|------------------|-------------------|---------------|
| Beginning Cash Balance | \$ 197 | \$ 13,039 | \$ (6,985) | \$ 600 |
| Additions: | | | | |
| Federal Advances | 587,694 | - | 34,389 | 27,000 |
| State Matching Funds | - | - | - | 9,421 |
| Transfer from College Work Study | - | - | - | - |
| Interest Collected | - | 1,330 | - | - |
| Other Income | - | 128 | - | - |
| Principal Collected | - | 5,317 | - | - |
| Total Additions | <u>587,694</u> | <u>6,775</u> | <u>34,389</u> | <u>36,421</u> |
| Deductions: | | | | |
| Distribution to Students | 611,037 | - | 27,928 | 37,028 |
| Transfer to SEOG | - | - | - | - |
| Administrative Expenses | - | - | 3,213 | - |
| Total Deductions | <u>611,037</u> | <u>-</u> | <u>31,141</u> | <u>37,028</u> |
| Net Change in Cash | <u>(23,343)</u> | <u>6,775</u> | <u>3,248</u> | <u>(607)</u> |
| Ending Cash Balance | <u>\$ (23,146)</u> | <u>\$ 19,814</u> | <u>\$ (3,737)</u> | <u>\$ (7)</u> |

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004**

**STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS**

| | <u>PELL</u> | <u>PERKINS</u> | <u>CWS</u> | <u>SEOG</u> |
|----------------------------------|--------------------|-----------------|-------------------|-----------------|
| Beginning Cash Balance | \$ (23,146) | \$ 19,814 | \$ (3,737) | \$ (7) |
| Additions: | | | | |
| Federal Advances | 689,092 | - | 36,148 | 28,603 |
| Transfer from College Work Study | - | - | - | - |
| State Matching Funds | - | - | - | 9,421 |
| Institution Matching Funds | - | - | | - |
| Interest Collected | - | 1,324 | - | - |
| Interest Investments | - | 52 | - | - |
| Principal Collected | <u>-</u> | <u>6,110</u> | <u>-</u> | <u>-</u> |
| Total Additions | <u>689,092</u> | <u>7,486</u> | <u>36,148</u> | <u>38,024</u> |
| Deductions: | | | | |
| Distribution to Students | 680,378 | - | 32,708 | 38,466 |
| Repayment to Perkins | - | 17,471 | - | - |
| Transfer to SEOG | - | - | - | - |
| Other Costs | - | 34 | - | - |
| Administrative Expenses | <u>-</u> | <u>-</u> | <u>3,400</u> | <u>-</u> |
| Total Deductions | <u>680,378</u> | <u>17,505</u> | <u>36,108</u> | <u>38,466</u> |
| Net Change in Cash | <u>8,714</u> | <u>(10,019)</u> | <u>40</u> | <u>(442)</u> |
| Ending Cash Balance | <u>\$ (14,432)</u> | <u>\$ 9,795</u> | <u>\$ (3,697)</u> | <u>\$ (449)</u> |

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2003 AND 2004**

**SCHEDULE OF EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS**

| | <u>2003</u> | <u>2004</u> |
|---|-----------------------|-----------------------|
| Perkins Loan Program | | |
| Student Loan Advances | \$ <u> -</u> | \$ <u> -</u> |
| College Work Study | | |
| Wages | \$ 47,984 | \$ 51,461 |
| Administrative Cost | 3,213 | 3,400 |
| | \$ <u> 51,197 </u> | \$ <u> 54,861 </u> |
| Supplemental Education Opportunity Grant Program | | |
| Student Grants | \$ <u> 36,428 </u> | \$ <u> 38,466 </u> |
| Pell Grant Program | | |
| Student Grants | \$ <u> 610,287 </u> | \$ <u> 685,012 </u> |

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2003 AND 2004**

SCHEDULE OF ENROLLMENT STATISTICS

| Semester | Resident | Third Week Report | | Total |
|----------------|----------|-------------------|-------------|--------|
| | | WUE | Nonresident | |
| Summer 2002 | 56.57 | - | 1.40 | 57.97 |
| Fall 2002** | 446.87 | - | 18.93 | 465.80 |
| Spring 2003 | 406.53 | - | 15.50 | 422.03 |
| Summer 2003 | 75.17 | - | 0.26 | 75.43 |
| Fall 2003 ** | 467.13 | - | 18.24 | 485.37 |
| Spring 2004 ** | 436.00 | - | 20.70 | 456.70 |

** Totals include late starting classes allowed for full-time equivalent calculations

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|---|---------------------------|-------------------------------------|-------------------------|
| MAJOR PROGRAMS: | | | |
| <u>U.S. Department of Education</u> | | | |
| Direct Programs: | | | |
| Supplemental Educational Opportunity Grant Program | 84.007 | N/A | \$ 27,007 |
| College Work Study | 84.033 | N/A | 29,705 |
| Federal Family Education Loans * | 84.032 | N/A | 518,252 |
| Pell Grant Program | 84.063 | N/A | 610,287 |
| Total U.S. Department of Education - Major Programs | | | <u>1,185,251</u> |
| <u>Corporation for National and Community Service</u> | | | |
| Direct Programs: | | | |
| Retired Senior Volunteer Program | 94.002 | 02SRPMT007 | <u>67,672</u> |
| NON-MAJOR PROGRAMS: | | | |
| <u>U. S. Department of Agriculture</u> | | | |
| Direct Programs: | | | |
| ROCKS | 10.500 | | <u>36,704</u> |
| <u>U.S. Department of Labor</u> | | | |
| Pass-Through the Montana Job Training Partnership, Inc.: | | | |
| WIA Adult Program | 17.258 | 02003A/03003A | 47,542 |
| WIA Adult Program | 17.258 | 02002A/03002A | 76,567 |
| Total U.S. Department of Labor | | | <u>124,109</u> |
| <u>U.S. Department of Education</u> | | | |
| Direct Programs: | | | |
| Adult Basic Education | 84.002 | | <u>42,409</u> |
| Fund for Improvement of Post-Secondary Education | 84.116B | N/A | <u>34,764</u> |
| Even Start | 84.213C | 586,013,803 | <u>104,500</u> |
| Passed-Through Office of the Commissioner of Higher Education: | | | |
| Carl D.Perkins Nontraditional Training & Employment | 84.048 | 1NT002 | 25,000 |
| Carl D. Perkins Rural | 84.048 | 1RR002 | 34,997 |
| Carl D. Perkins Vocational Act | 84.048 | LLP02 | 95,490 |
| Total CFDA #84.048 | | | <u>155,487</u> |
| Total U.S. Department of Education - nonmajor programs | | | <u>337,160</u> |
| <u>U.S. Department of Health & Human Services</u> | | | |
| Passed-Through Department of Social and Rehabilitation Services: | | | |
| ABE - JOBS | 93.558 | 5865015303 | <u>6,930</u> |
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| Direct Programs: | | | |
| VA Task Force | 14.246 | | <u>59,593</u> |
| TOTAL FOR ALL FEDERAL AWARDS PROGRAMS | | | <u>\$ 1,817,419</u> |

* This program's activity is not reflected in the financial statements of this entity.

**MILES COMMUNITY COLLEGE
MILES CITY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| MAJOR PROGRAMS: | | | |
| <u>U. S. Department of Agriculture</u> | | | |
| Direct Programs: | | | |
| Community Facilities Direct Loan Program | 10.766 | N/A | \$ 1,500,000 |
| Community Facilities Loan Guarantee Program | 10.766 | N/A | 370,000 |
| Total U.S. Department of Agriculture | | | <u>1,870,000</u> |
| <u>U.S. Department of Education</u> | | | |
| Direct Programs: | | | |
| Supplemental Educational | | | |
| Opportunity Grant Program | 84.007 | N/A | 29,045 |
| College Work Study | 84.033 | N/A | 36,108 |
| Federal Family Education Loans * | 84.032 | N/A | 651,029 |
| Pell Grant Program | 84.063 | N/A | 680,378 |
| Total U.S. Department of Education - Major Programs | | | <u>1,396,560</u> |
| <u>Corporation for National and Community Service</u> | | | |
| Direct Programs: | | | |
| Retired Senior Volunteer Program | 94.002 | 02SRPMT007 | <u>70,379</u> |
| NON-MAJOR PROGRAMS: | | | |
| <u>U. S. Department of Agriculture</u> | | | |
| Direct Programs: | | | |
| ROCKS | 10.500 | | <u>5,565</u> |
| <u>U.S. Department of Labor</u> | | | |
| Pass-Through the Montana | | | |
| Job Training Partnership, Inc.: | | | |
| WIA Adult Program | 17.258 | 02003A/03003A | 70,422 |
| WIA Adult Program | 17.258 | 02002A/03002A | 53,570 |
| Total U.S. Department of Labor | | | <u>123,992</u> |
| <u>U.S. Department of Education</u> | | | |
| Direct Programs: | | | |
| Adult Basic Education | 84.002 | | <u>43,910</u> |
| Fund for Improvement of Post-Secondary Education | 84.116B | N/A | <u>203,703</u> |
| Even Start | 84.213C | 586,013,803 | <u>121,496</u> |
| Passed-Through Office of the | | | |
| Commissioner of Higher Education: | | | |
| Carl D.Perkins Nontraditional Training & Employment | 84.048 | 1NT002 | 25,000 |
| Carl D. Perkins Rural | 84.048 | 1RR002 | 35,000 |
| Carl D. Perkins Vocational Act | 84.048 | LLP02 | 55,160 |
| Total CFDA #84.048 | | | <u>115,160</u> |
| Total U.S. Department of Education - nonmajor programs | | | <u>484,269</u> |
| TOTAL FOR ALL FEDERAL AWARDS PROGRAMS | | | <u>\$ 3,950,765</u> |

* This program's activity is not reflected in the financial statements of this entity.



CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067
104 Second Avenue S.W.
Sidney, Montana 59270
406-433-2092
1-800-676-2467
FAX: 406-433-2095

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Legislative Audit Committee
of the Montana State Legislature

We have audited the basic financial statements of Miles Community College as of and for the years ended June 30, 2003 and 2004, as listed in the table of contents and have issued our report thereon dated May 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Miles Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over financial reporting that, in our judgment, could adversely affect Miles Community College's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings on pages 43-45 as finding #04-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we do not believe the reportable condition described in the accompanying schedule of findings on pages 43-45 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Miles Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Miles Community College in the accompanying schedule of findings on pages 43-45 as finding #04-02 and #04-03.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Miles Community College's management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

CHMS, PC

CHMS, P.C.
Certified Public Accountants

May 27, 2005



CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067
104 Second Avenue S.W.
Sidney, Montana 59270
406-433-2092
1-800-676-2467
FAX: 406-433-2095

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Legislative Audit Committee
of the Montana State Legislature

Compliance

We have audited the compliance of Miles Community College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended June 30, 2003 and 2004. Miles Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings on pages 43 - 45. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Miles Community College's management. Our responsibility is to express an opinion on Miles Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Miles Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Miles Community College's compliance with those requirements.

In our opinion, Miles Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2003 and 2004.

Internal Control Over Compliance

The management of Miles Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Miles Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. A reportable condition is described in the accompanying schedule of findings and questioned costs on pages 43 - 45 as finding #04-04.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Miles Community College's management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.


CHMS, P.C.
Certified Public Accountants

May 27, 2005

**MILES COMMUNITY COLLEGE
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2003 AND 2004**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Qualified

Internal control over financial reporting:

Material weakness identified? No

Reportable conditions identified not considered
to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Reportable conditions identified not considered
to be material weaknesses? Yes

Type of auditor’s report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Circular A-133, Section .510(a)? No

Identification of major programs:

| <u>CFDA Number</u> | <u>Award Year</u> | <u>Name of Federal Program</u> |
|---|------------------------|---|
| 84.007, 84.032 84.033 & 84.063 10.766 | 02-03 & 03-04 03-04 | Student Financial Aid Cluster Community Facilities Direct Loan Program and Community Facilities Loan Guarantee Program Retired Senior Volunteer Program |
| 94.002 | 02-03 & 03-04 | |

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**MILES COMMUNITY COLLEGE
SCHEDULE OF FINDINGS (CONTINUED)
YEARS ENDED JUNE 30, 2003 AND 2004**

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING #04-01 – SEGREGATION OF DUTIES

Due to the small size of the entity, there is an absence of segregation of duties appropriate for a strong system of internal control. The College has implemented compensating controls to the extent practical, and we are not recommending further action at this time. However, we believe the Trustees should be aware that the condition results in a greater risk of errors occurring and not being detected within a timely manner than would be the case if duties were appropriately segregated.

Recommendation

No further action at this time.

FINDING #04-02 – NON-BUDGETED FUNDS EXPENDITURE LIMITATIONS

The College has a number of individual non-budgeted funds with deficit cash balances. According to Montana Code Annotated §20-9-210, the expenditures for a non-budgeted fund are limited to that fund's cash balance. The College requested a County Attorney's opinion regarding the definition of non-budgeted funds for community colleges. No firm definition of non-budgeted funds was provided to the College by the County Attorney.

Recommendation

The College should request an Attorney General's opinion on the definition of non-budgeted funds for community colleges. For those funds defined as non-budgeted funds, expenditures should be limited to the amount of cash available in that fund.

FINDING #04-03 – PURCHASE OF PROPERTY

The College purchased computers with a total contract cost exceeding \$25,000. The College did not follow formal bid procedures for that purchase. Montana Code Annotated §20-15-104 requires that whenever the proposed contract costs are more than \$25,000, the board of trustees shall solicit formal bids and advertise once each week for at least 2 weeks in a newspaper published in each county wherein the area of the district lies, calling for bids to perform such work or furnish such supplies.

JUNE 30, 2003 AND 2004

The College should follow formal bid procedures that conform to the requirements of Montana Code Annotated §20-15-104.

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2001 and 2002 is as follows:

| <u>Finding</u> | <u>Status</u> |
|---|----------------------------------|
| Finding #02-1 – Segregation of Duties | N/A – See finding #04-01 |
| Finding #02-2 – Non-Budgeted Funds Expenditures | Not Implemented – Finding #04-02 |
| Finding #02-3 – Purchase of Property | Not Implemented – Finding #04-03 |

SECTION III – FEDERAL AWARD FINDINGS

SEGREGATION OF DUTIES – SEE FINDING #04-01

FINDING #04-04 – STUDENT FINANCIAL AID EXIT CONFERENCES

The College is required to conduct and document exit counseling for the Federal Family Educational Loan Program, pursuant to 34 CFR 682.04 and 685.303. In a sample of 40 files, 3 files did not contain the required documentation of exit conferences or documentation of an attempt to contact the student.

Recommendation

The College should develop a system to identify students that withdraw or leave school during the year who need exit conferences completed. As an additional safeguard to ensure the documentation is in the student's file, the College should develop a checklist to track when the required documentation for exit conferences has been placed in the student's file.

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2001 and 2002 is as follows:

| <u>Finding</u> | <u>Status</u> |
|---------------------------------------|--------------------------|
| Finding #02-1 – Segregation of Duties | N/A – See finding #04-01 |

2715 Dickinson
Miles City, MT 59301
www.milesc.edu



(406) 874-6100
Fax: (406) 874-6282
Equal Opportunity in
Education and Employment.

June 16, 2005

CHMS, P.C.
P.O. Box 1067
104 Second Avenue S.W.
Sidney, Montana 59270

To Whom It May Concern:

If you need our responses reworded, need additional information or need the responses in a different format please let me know.

Finding #04-01 – Segregation of Duties

Due to the small size of the entity, there is an absence of segregation of duties appropriate for a strong system of internal control. The college has implemented compensating controls to the extent practical, and we are not recommending further action at this time. However, we believe the Trustees should be aware that the condition results in a greater risk of errors occurring and not being detected within a timely manner than would be the case if duties were appropriately segregated.

Recommendation-No further action at this time.

Response-The college has hired a cashier beginning in November 2005 and further segregated duties because of this hire. With an additional change in check signing authority the college would expect this finding to be resolved.

Finding #04-02 – Non-Budgeted funds expenditure limitations

The College has a number of individual non-budgeted funds with a deficit cash balances. According to Montana Code Annotated S20-9-210, the expenditures for a non-budgeted fund are limited to that fund's cash balance. The College has requested a County Attorney's opinion regarding the definition of non-budgeted funds for community colleges. The County Attorney has not provided the College with a firm definition of non-budgeted funds for a community college.

Recommendation – The College should request an Attorney General's opinion on the definition of non-budgeted funds for community colleges. For those funds defined as non-budgeted funds, expenditures should be limited to the amount of cash available in that fund.

Response - The College will request an opinion from the Montana University System attorney regarding this item or help from the system attorney in obtaining an Attorney General's opinion.



Finding #04-03 – Purchase of property

The College purchased furniture and a telephone system during the audit period, each with a total contract cost exceeding \$25,000. The College did not follow formal bid procedures for that purchase. Montana Code Annotated S20-15-104 requires that whenever the proposed contract costs are more than \$25,000, the board of trustees shall solicit formal bids and advertise once each week for at least 2 weeks in a newspaper published in each county wherein the area of the district lies, calling for bids to perform such work or furnish such supplies.

Recommendation – The College should follow formal bid procedures that conform to the requirements of Montana Code Annotated S20-15-104.

Response – The College did contact all known vendors in Custer County via phone and solicited bids from those vendors, and request board of trustee approval before bid solicitation began. The College will post in the local paper all future purchases over \$25,000.

Finding #04-04 – The College is required to conduct and document exit counseling for the Federal Family Educational Loan Program, pursuant to 34 CFR 682.04 and 685.303. In a sample of 40 files, 3 files did not contain the required documentation of exit conferences or documentation of an attempt to contact the student.

Recommendation – The College should develop a system to identify students that withdraw or leave school during the year who need exit conferences completed. As an additional safeguard to ensure the documentation is in the student's file, the College should develop a checklist to track when the required documentation for exit conferences has been placed in the student's file.

Response – The College Controller has talked with the Financial Aid Director and a process has been developed and implemented that should correct this finding #04-04.

Sincerely,

Ron Dorn
Dean Administrative Services